REPORT OF EXAMINATION
OF THE

INDEMNITY COMPANY OF CALIFORNIA

AS OF
DECEMBER 31, 2009

Participating State
and Zone:

California

Filed May 18, 2011

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Los Angeles, California
March 16, 2011

Honorable Joseph Torti, III
Chairman of the NAIC Financial
Condition Subcommittee
Superintendent of Business Regulation
Division of Insurance
Cranston, Rhode Island

Honorable Linda S. Hall
Secretary, Zone IV-Western
Director of Insurance
Alaska Division of Insurance
Anchorage, Alaska

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

INDEMNITY COMPANY OF CALIFORNIA

(hereinafter also referred to as the Company) at the statutory home office and primary location of its books and records, 17780 Fitch, Suite 200, Irvine, California 92614.

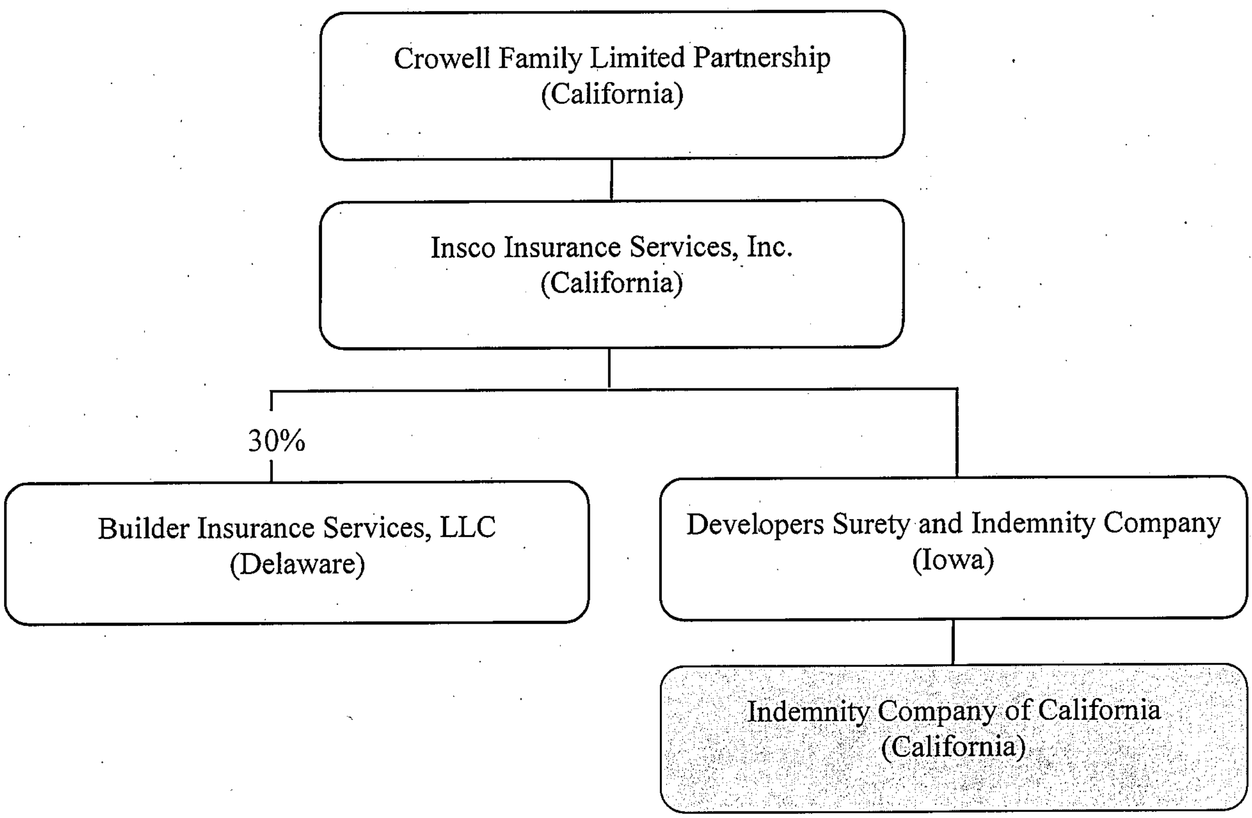
SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2009. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: company history; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary companies, depicts the Company's relationship within the holding company system:



(*) All ownership is 100% unless otherwise noted.

Management of the Company is vested in a six-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2009 follows:

Directors

Name and Residence	Principal Business Affiliation
Harry C. Crowell Newport Beach, California	Chairman of the Board Insco Insurance Services, Inc.
Walter A. Crowell Henderson, Nevada	President and Chief Executive Officer Insco Insurance Services, Inc.
David L. Kerrigan Corona Del Mar, California	Executive Vice President and Chief Legal Officer Insco Insurance Services, Inc.
Stephen T. Pate Irvine, California	Senior Vice President and Chief Underwriting Officer Insco Insurance Services, Inc.
David H. Rhodes La Quinta, California	Executive Vice President Insco Insurance Services, Inc.
Sam Zaza Santa Ana, California	Senior Vice President, Chief Financial Officer and Treasurer Insco Insurance Services, Inc.

Principal Officers

Name	Title
Walter A. Crowell	President and Chief Executive Officer
Harry C. Crowell	Chairman and Secretary
Sam Zaza	Chief Financial Officer and Treasurer
David L. Kerrigan	Executive Vice President
David H. Rhodes	Executive Vice President
Susan M. Moore	Senior Vice President
Stephen T. Pate	Senior Vice President

Name	Title
Gregg N. Okura	Vice President
Steve A. Tvedt	Vice President
Daniel E. Young	Vice President
Steve A. Murray	Regional Vice President
Blaine D. Williamson	Regional Vice President

Management Agreements

Underwriting Management Agreement: Effective August 1, 2005, the Company entered into an Underwriting Management Agreement (Agreement) with Insco Insurance Services, Inc. (INSCO) Pursuant to the terms of the Agreement, INSCO manages the Company's surety insurance operation, including administration, production and distribution, and claims and adjusting functions. The Company reimburses INSCO monthly for all costs and expenses incurred. For 2005, 2006, 2007, 2008, and 2009, the Company paid $3,042,915; $2,553,721; $3,069,887; $2,835,287; and $2,147,643, respectively, for service fees to INSCO under the terms of the Agreement. The Agreement was renewed by the Company on August 1, 2010 and approved by the California Department of Insurance (CDI) on December 10, 2010.

Tax Sharing Agreement: The Company participates in a consolidated federal income tax agreement with INSCO and Developers Surety and Indemnity Company. Allocation of taxes is based upon separate return calculations with inter-company tax balances settled within 30 days subsequent to the filing of the consolidated return. The CDI approved this agreement on August 23, 2007.

CORPORATE RECORDS

California Insurance Code (CIC) Section 735 states that the Company must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the Commissioner. The board must also enter that fact in the board minutes. A review of the board minutes disclosed that both the first formally prepared draft and the final report officially filed on April 5, 2006 were not presented to the board.

It is recommended that the Company implement procedures to ensure future compliance with CIC Section 735.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the Company was licensed to transact surety insurance only. Subdivision bonds had previously been the Company's main focus. However, due to the recent downturn in the real estate industry, the Company has shifted its business from subdivision to contract and performance bonds, which accounted for 55% of its direct written premium in 2009. The following is a listing of the states in which the Company is licensed:

Alaska	Nevada
Arizona	Oregon
California	South Carolina
Hawaii	Utah
Idaho	Virginia
Indiana	Washington

During the period under examination, the Company's direct premiums decreased from about $8.1 million in 2005 to approximately $6.6 million in 2009, an 18.52% decline, which was due to the effects of the recent downturn in the economy, specifically the housing and construction industries. Of the direct premiums written in 2009, approximately $4.1 million, or 62%, was written in California, $992 thousand, or 15%, in Oregon, $934 thousand, or 14%, in Washington, and $582 thousand, or 9%, in the remaining states.

The Company's business is produced through a parent company, Insco Insurance Services Inc. (INSCO), pursuant to the aforementioned underwriting management agreement. The underwriting and distribution network is administered by INSCO, which maintains 19 branch offices. INSCO provides all underwriting and support services for the Company and utilizes a distribution network of approximately 4,056 independent agents.

REINSURANCE

Assumed

The Company has no reinsurance assumed.

Ceded

The following is a summary of the principal ceded reinsurance treaties inforce as of December 31, 2009:

Type of Contract	Percentage of Participation & Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
1st Excess of Loss	60.0% Munich Re America 28.0% Transatlantic Reinsurance Company 12.0% Endurance Reinsurance Corporation	$500,000 each principal	$4.5 million in excess of $500,000 with aggregate of $13.5 million
2nd Excess of Loss	57.0% Munich Re America 28.0% Transatlantic Reinsurance Company 10.0% Endurance Reinsurance Corporation	$5 million each principal	95% of $5 million in excess of $5 million with aggregate of $9.5 million
3rd Excess of Loss	57.0% Munich Re America 28.0% Transatlantic Reinsurance Company 10.0% Endurance Reinsurance Corporation	$10 million each principal	95% of $10 million in excess of $10 million
Quota Share	35.0% Transatlantic Reinsurance Company 21.0% Endurance Reinsurance Corporation 17.5% Munich Re America	26.5% up to $75 million per account	73.5% up to $75 million per account

A 50% surety surplus share treaty with American Reinsurance Company and Employers Reinsurance Corporation covering subdivision bond business, initially effective October 1, 1991, was terminated on December 31, 2001 and commuted effective December 31, 2007.

As of December 31, 2009, the Company has no reinsurance recoverables from the reinsurers.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders
from December 31, 2004 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 17,736,196	$	$ 17,736,196	
Stocks:				
Preferred stocks	652,700		652,700	(1)
Cash and short-term investments	3,138,855		3,138,855	
Investment income due and accrued	233,957		233,957	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	556,310	102,381	453,929	
Reinsurance:				
Amounts of recoverable from reinsurers	(32,531)		(32,531)	
Net deferred tax asset	252,920	20,742	232,178	
Aggregate write-ins for other than invested assets	563		563	
Total assets	$ 22,538,970	$ 123,123	$ 22,415,847	

Liabilities, Surplus and Other Funds

Losses		$ 1,851,195	(2)
Loss adjustment expenses		880,621	(2)
Taxes, licenses and fees		(80,082)	
Current federal and foreign income taxes		271,213	
Unearned premiums		3,248,401	
Ceded reinsurance premiums payable		89,894	
Amounts withheld or retained by company for account of others		856,350	
Payable to parent, subsidiaries and affiliates		162,215	
Total liabilities		7,279,807	
Common capital stock	$ 1,200,000		
Gross paid-in and contributed surplus	2,451,010		
Unassigned funds (surplus)	11,485,030		
Surplus as regards policyholders		15,136,040	
Total liabilities, surplus and other funds		$ 22,415,847	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

			Notes
Underwriting Income			
Premiums earned		$ 7,993,174	
Deductions:			
Losses incurred	$ 1,582,619		
Loss expense incurred	227,331		
Other underwriting expenses incurred	3,945,533		
Total underwriting deductions		5,755,483	
Net underwriting gain		2,237,691	
Investment Income			
Net investment income earned	$ 815,508		
Net realized capital gains	145,470		
Net investment gain		960,978	
Net income before federal income taxes		3,198,669	
Federal income taxes incurred		(712,612)	
Net income		$ 2,486,057	

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		$ 12,814,308	
Net income	$ 2,486,057		
Change in net unrealized capital losses	(25,129)		
Change in net deferred income tax	(196,657)		
Change in nonadmitted assets	57,460		
Surplus adjustments: Paid-in	25,531		(3)
Aggregate write-ins for losses in surplus	(25,531)		(3)
Change in surplus as regards policyholders		2,321,730	
Surplus as regards policyholders, December 31, 2009		$ 15,136,039	

Reconciliation of Surplus as Regards Policyholders
from December 31, 2004 through December 31, 2009

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2004, per Examination			$ 7,238,372
Net income	$ 8,057,856	$	
Change in net unrealized capital gains	6,109		
Change in net deferred income tax		72,456	
Change in nonadmitted assets		93,843	
Surplus adjustments: Paid-in	25,531		
Aggregate write-ins for losses in surplus		25,531	
Totals	$ 8,089,496	$ 191,830	
Net increase in surplus as regards policyholders for the examination			7,897,666
Surplus as regards policyholders, December 31, 2009, per Examination			$ 15,136,038

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Stocks

A preferred stock of $257,000 was incorrectly classified in 2009 as common stock. The classification error was corrected in the first quarter of 2010. The total amount of preferred stocks that should have been reported in the 2009 Annual Statement was $652,700.

(2) Losses and Loss Adjustment Expenses

The review of the loss and loss adjustment expense reserves was coordinated with the state of Iowa Insurance Division (IID) in conjunction with their examination of the Company's parent, Developers Surety and Indemnity Company. IID contracted the review of the Company's loss and loss adjustment expense reserves with the independent actuarial firm of EVP Streff Alliance (EVP Streff). Based on the analysis by EVP Streff and the review of their work by a Casualty Actuary from the CDI, the Company's December 31, 2009 reserves were found to be $368,000 deficient based upon subsequent development. Due to lack of materiality, no adjustment to the financial statement was made.

(3) Surplus Adjustments and Aggregate Write-Ins for Losses in Surplus

The increase in paid-in capital of $25,531 and the decrease in aggregate write-ins of the same amount are due to a correcting entry for an error. The Company previously recorded capital of $3,625,478 instead of the correct amount of $3,651,009, causing the recording error of $25,531.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Corporate Records (Page 5): It is recommended that the Company implement procedures in its board meetings to ensure compliance with California Insurance Code (CIC) Sections 735.

Previous Report of Examination

Management Agreements – Underwriting Management Agreement and Tax Sharing Allocation Agreement (Page 4): It was recommended that the Company submit the captioned agreements to the California Department of Insurance for approval pursuant to California Insurance Code Section 1215.5(b). The Company has complied with this recommendation.

Accounts and Records (Page 7): It was recommended that a formal disaster recovery plan be prepared and periodically tested. The Company has complied with this recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and parent company's employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_______/s/____________________
Tony L. Tran, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California